

Internal Revenue Service

P.O. Box 2508
Cincinnati, OH 45201

Department of the Treasury**Release Number: 201527049****Release Date: 7/2/2015****Date: April 7, 2015****Employer Identification Number:****Contact person - ID number:****Contact telephone number:**

UIL 4945.04-04

LEGEND

X = Program

Y = Charter School Name

Z = Program Name

b dollars = Amount

Dear :

You received advance approval for your grant making program on March 14, 2002; under this program you made qualifying distributions under Section 4945(g)(1). You are modifying your grant-making program and are now requesting advance approval of your revised grant making procedures. This approval is required because you are a private foundation that is exempt from federal income tax.

Our determination

We approved your procedures for awarding scholarships. Based on the information you submitted, and assuming you will conduct your program as proposed, we determined that your procedures for awarding scholarships meet the requirements of Code section 4945(g)(1). As a result, expenditures you make under these procedures won't be taxable.

Also, awards made under these procedures are scholarship or fellowship grants and are not taxable to the recipients if they use them for qualified tuition and related expenses (subject to the limitations provided in Code section 117(b)).

Description of your request

Your letter indicates you will operate a scholarship program called X.

You were formed to promote healthy well-being, education, and pre-career development of urban at-risk youth or those needing a special boost. The purpose of X is to advance your charitable and educational purposes by promoting post-secondary education for at-risk urban youth by providing need-based post-secondary educational scholarships for students of Y, a public charter school, exempt under Section 501(c)(3). The scholarships are solely for expenses related to attending an accredited four year college, university,

community college or vocational school that is described in 170(b)(1)(A)(ii); funding will be provided only for tuition and fees, required books, housing, meal plans, pre-approved educational supplies, and pre-approved travel directly related to attendance at the school and for only amounts not paid for by financial aid; it does not cover the amount of the Expected Family Contribution (EFC) per federal student aid packages.

Since 2002, you have been providing scholarships to children who successfully completed an after school program conducted by W. The afterschool program was a rigorous program of mentoring, community service, academic coaching, and other enrichment programs designed to supplement the academic experiences that participants had in their regular primary or secondary school; students were selected from among fifth graders from the poorest performing schools in the area and were required to stay in the program through high school. Participants who successfully remained in the program were awarded a scholarship by you.

W is transitioning to Y, a public charter school exempt under Section 501(c)(3) to increase the number of students who could participate in the programming and to further increase the success of students. With the opening of the charter school, no new fifth grade students were accepted into W's program and soon all the students in the program will have graduated high school. Y assumed the same responsibilities of W and serves students from socio-economically disadvantaged communities; it also provides mandatory enrichment programs which are closely monitored in addition to attendance during regular classroom instruction. Over 75% of Y's students qualify for free and reduced lunch. It is this pool of students who will be eligible to receive a scholarship grant through your program.

You operate Z, which is a program you operate as a complement to X. Through Z, you partner with students at Y to provide financial aid advice, student coaches and other types of mentoring. Z is a key component to fulfilling your mission.

Beginning in eleventh grade, your programs are discussed at school events, and planned and sponsored events; in addition, Z personnel work with the school's director of college and career counseling to guide families through the financial aid process. X is discussed in that context in connection with any gap that is identified, which occurs in the spring of the senior year when students have received their college acceptances and have information about available funding from their colleges and financial aid.

To be eligible, students must:

- Earn a GPA of a 2.0 or higher each term;
- Apply for all relevant financial aid opportunities, including, but not limited to Free Application for Federal Student Aid (FAFSA), College Scholarship Service (CSS) Profile, Board of Governors Grant (BOGG) Fee Waiver, work-study, loans, and a minimum of two scholarship applications outside of the institution they are attending;

- Submit financial aid award letters, a copy of the Student Aid Report, and proof of scholarship applications;
- Eligible students must enter into a scholarship agreement; pursuant to this agreement, eligible students must agree to attend a Z college orientation and Z's summer program, agree to apply for various forms of financial aid, agree to work with a Z college coach as well as attend other workshops and meetings as assigned by Z.

All students who meet the eligibility requirements described above and have demonstrated financial need are eligible for a scholarship.

The number of grants made each year depends solely on the number of students who meet eligibility requirements and have demonstrated financial need; the amount of the grants are limited to per student maximum which is currently set at b dollars per year for up to six years of post-secondary education. This may be further reduced in any year if your resources do not permit full funding for all recipients. Subject to the cap previously described, the amount of each scholarship for each academic term is determined based on the following formula: Eligible Educational Expenses less other available funding is the tentative scholarship amount. Your scholarships are designed to fund the gap which is referred to as eligible need.

There is generally no selection committee. Although your employees are responsible for determining the satisfaction of the requirements for eligibility and renewal, those are objective determinants that do not involve any meaningful degree of discretion, nor are those foundation employees in a position to receive private benefit directly or indirectly if certain potential recipients are determined to be eligible for a scholarship over others.

If the combined eligible need of all eligible individuals in any given year exceeds your available annual funding, the available funding would be divided among the eligible individuals according to the following hierarchy:

- a. Funding will be made available to eligible seniors (i.e. students who are closest to completing their degrees).
- b. If available funding permits, each eligible senior would receive funding in the full amount of his or her eligible need.
- c. If all senior scholarships had been satisfied, your remaining funding would then be distributed to satisfy the eligible need of eligible students in the Junior Class. Then, if funds remained, the sophomore class would be funded. Then, if funds remained, the freshman class would be funded.
- d. When a class level is reached for which there will be inadequate funding available for all of the Eligible Needs, funds will be distributed to the students in that class based upon their cumulative GPAs, ranked from highest to lowest. Thus, the student with the highest GPA would receive funding in the full amount of his or her Eligible Need (assuming you have at least that amount available); and so on through GPA ranking, until the available funds are depleted.

In such years as the combined recipient need does not exceed the available annual funding, there shall not be a Selection Committee. The scholarship distribution approach is objective and ensures unbiased administration, as it is based solely on seniority and GPA, which are readily available and verifiable through student transcripts.

However, in such years when the combined recipient need is greater than the available annual funding, a selection committee will act to ensure that the distribution of funds is administered in an objective, unbiased way. The Selection Committee members will be the three individuals then holding the positions of your Managing Director, Director of Z, and Z's Lead College Coach.

Your Related Party Policy prohibits scholarships to be awarded to "family members" or "relatives" of the Selection Committee, officers, directors and substantial contributors, among other persons. "Family members" include an individual's spouse, ancestors, children, grandchildren, great grandchildren, and the spouses of children, grandchildren, and great grandchildren. "Relatives" include "family members" as well as any other persons who are related to such individual by blood, adoption, marriage, and to whom it is reasonable to cause such individual to abstain from the determination process to ensure objectivity. Individuals are not permitted to participate in the determination of a scholarship award, including decisions regarding the amount or renewal thereof, to a relative.

During the period the scholarship is being administered, students are required to provide you with transcripts, course schedules and a course plan for graduation. Each student is required to meet with his or her assigned Z college coach at least monthly to review the student's progress and discuss the student's courses and grades.

Primarily, you will pay the grants directly to an educational institution, which complies with Internal Revenue Code section 170(b)(1)(A)(ii), for application directly to the student's tuition, student fees and on-campus room and board, if the student satisfies the educational institution's standards for current enrollment. Further policies include the following:

- Payments for off-campus housing will be made directly to the property management office or landlord.
- You will establish a book account to which the students will be able to charge their books. When the book account is not available or does not supply a student's books, students may obtain approval to purchase their books and then submit the appropriate receipts to you for approval and reimbursement.
- Qualifying school supplies are reimbursable only when they are pre-approved.
- School-related travel expenses will only be paid in accordance with a budget submitted annually and based on the most economical options available. Receipts are required for any such expenses that you advance or reimburse.

Performance will be monitored under the following procedures:

- a. Scholarship recipients will be placed on probation for one term when GPAs are lower than 2.0; for earning units less than full-time in an academic term; and for not communicating with the Z college coach;
- b. Recipients who remain on probation for two consecutive terms will be placed on a Probationary Contract;
- c. Recipients who are on probation for three cumulative terms will be placed on a Probationary Contract;
- d. Recipients who do not fulfill the terms of their Probationary Contract may be placed on a Dismissal Contract and/ or may have funding reduced or terminated; and,
- e. Recipients who choose not to return to school after two consecutive semesters without taking classes will be considered to have voluntarily terminated their participation in the scholarship program.

You will ensure that scholarship disbursements are related to the educational purpose of the grant and, if not sufficiently related, will decline to pay the expense or reimburse the expenditures.

In the event that funds are misused, the steps you take to seek recovery of misused funds will depend upon the payee of those funds, the amount involved and other relevant circumstances. In all cases, you will contact the payee in writing at the most recent email or mailing address and demand prompt return of the misused funds.

If the payee of the misused funds is a student, who remained part of Z on a probationary basis, the student's Z college coach and the Z Director would meet with the student to discuss a payment plan for restoration of the misused funds. Given the typical age, financial profile of the students, and the modest amounts of any advances you might make to students, you do not expect to pursue legal action against a student payee who misused funds, as it is not likely that legal action would result in execution of a judgment.

If the payee of the misused funds is a third party vendor, including an educational organization, landlord, or other vendor, in addition to sending one or more written requests for return of the misused funds, you may pursue legal recourse if the significance of the amount warranted it, and you believe there is a reasonable probability that legal action would result in execution of judgment against the third party vendor.

Basis for our determination

The law imposes certain excise taxes on the taxable expenditures of private foundations (Code section 4945). A taxable expenditure is any amount a private foundation pays as a grant to an individual for travel, study, or other similar purposes. However, a grant that meets all of the following requirements of Code section 4945(g) is not a taxable expenditure.

- The foundation awards the grant on an objective and nondiscriminatory basis.
- The IRS approves in advance the procedure for awarding the grant.

- The grant is a scholarship or fellowship subject to the provisions of Code section 117(a).
- The grant is to be used for study at an educational organization described in Code section 170(b)(1)(A)(ii).

Other conditions that apply to this determination

- This determination only covers the grant program described above. This approval will apply to succeeding grant programs only if their standards and procedures don't differ significantly from those described in your original request.
- This determination applies only to you. It may not be cited as a precedent.
- You cannot rely on the conclusions in this letter if the facts you provided have changed substantially. You may report any significant changes to your program by completing Form 8940 and sending it to the Cincinnati Office of Exempt Organizations at:

Internal Revenue Service
Exempt Organizations Determinations
P.O. Box 2508
Cincinnati, OH 45201

- You cannot award grants to your creators, officers, directors, trustees, foundation managers, or members of selection committees or their relatives.
- All funds distributed to individuals must be made on a charitable basis and further the purposes of your organization. You cannot award grants for a purpose that is inconsistent with Code section 170(c)(2)(B).
- You should keep adequate records and case histories so that you can substantiate your grant distributions with the IRS if necessary.

We've sent a copy of this letter to your representative as indicated in your power of attorney.

Please keep a copy of this letter in your records.

If you have questions, please contact the person listed at the top of this letter.

Sincerely,

Director, Exempt Organizations